LANESBOROUGH REAL ESTATE INVESTMENT TRUST

FINANCIAL STATEMENTS

(unaudited)

MARCH 31, 2004

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

BALANCE SHEET

	March 31 2004	December 31 2003 (audited)
Assets		
Income properties (Note 4)	**$ 19,882,198**	$ 14,884,473
Mortgage loan receivable (Note 5)	**2,150,000**	4,248,326
Deferred charges (Note 6)	**1,406,098**	847,564
Cash	**9,802,616**	1,828,597
Accounts receivable	**88,530**	35,549
Deposits on potential acquisitions	**825,000**	50,000
Intangible assets (Note 7)	**1,488,878**	-
	$ 35,643,320	$ 21,894,509
Liabilities and Equity		
Mortgage loans payable (Note 8)	**$ 11,238,381**	$ 10,704,727
Convertible debentures (Note 9)	**14,952,842**	2,704,648
Accounts payable and accrued liabilities	**833,395**	603,202
Distribution payable	**326,589**	-
Intangible liabilities (Note 10)	**70,038**	-
	27,421,245	14,012,577
Equity	**8,222,075**	7,881,932
	$ 35,643,320	$ 21,894,509

Approved by the Board of Trustees

"Arni C. Thorsteinson"

"Charles K. Loewen"

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF EQUITY

	Three Months Ended March 31 2004	Three Months Ended March 31 2003 (Note 20)
Unitholders' equity, beginning of period	**$ 6,644,580**	$ 252,123
Unit-based compensation (Note 11)	**2,847**	2,847
Issue costs	**(1,179,982)**	-
Accretion on equity component of convertible debentures (Note 9)	**100,303**	5,722
Income (loss)	**(139,242)**	527
Distributions	**(326,589)**	(96,875)
Unitholders' equity, end of period	**5,101,917**	164,344
Equity component of convertible debentures (Note 9)	**3,120,158**	1,306,829
Equity, end of period	**$ 8,222,075**	$ 1,471,173

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF INCOME (LOSS)

	Three Months Ended March 31 2004	2003
Revenue		
Rentals from income properties (Note 14)	**$ 839,472**	$ 517,582
Interest and other income	**104,766**	33,524
	944,238	551,106
Expenses		
Property operating costs	**342,261**	232,951
Operating income	**601,977**	318,155
Financing expense	**481,004**	202,273
Trust expense	**34,128**	37,252
Amortization of income properties	**77,798**	19,159
Amortization of deferred charges	**89,038**	58,944
Amortization of intangible assets	**59,251**	-
	741,219	317,628
Income (loss)	**$ (139,242)**	$ 527
Income (loss) per unit (Note 16)		
Basic	**$ (0.053)**	$ 0.001
Diluted	**(0.053)**	0.001

(unaudited)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF CASH FLOWS

	Three Months Ended March 31 2004	Three Months Ended March 31 2003
Cash provided by (used in) operating activities		
Income (loss) from operations	**$ (139,242)**	$ 527
Items not affecting cash		
Accrued rental revenue (Note 14)	**(16,845)**	-
Amortization of above market in-place leases (Note 14)	**3,758**	-
Amortization of below market in-place leases (Note 14)	**(5,556)**	-
Accretion on debt component of convertible debentures	**100,303**	5,722
Interest on Series C debentures (Note 9)	**131,000**	-
Unit-based compensation	**2,847**	2,847
Amortization of income properties	**77,798**	19,159
Amortization of deferred charges	**89,038**	58,944
Amortization of intangible assets	**59,251**	-
Cash from operations	**302,352**	87,199
Changes in non-cash operating items (net of effects of acquisition of income property)	**(159,215)**	79,366
Tenant inducements and leasing expenses incurred through leasing activity	**(62,376)**	(347,301)
	80,761	(180,736)
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**619,014**	314,493
Proceeds of convertible debentures	**14,000,000**	-
Repayment of mortgage loans	**(85,360)**	(53,803)
Deferred mortgage financing fees	**(15,992)**	(10,518)
Issue costs	**(1,179,982)**	-
	13,337,680	250,172
Cash provided by (used in) investing activities		
Income property acquired (Note 3)	**(6,448,350)**	-
Additions to income properties	**(319,398)**	-
Mortgage loans receivable advance	**(1,000,000)**	-
Repayment of mortgage loan receivable	**3,098,326**	-
Deposits on potential acquisitions	**(775,000)**	-
	(5,444,422)	-
Cash increase	**7,974,019**	69,436
Cash, beginning of period	**1,828,597**	122,495
Cash, end of period	**$ 9,802,616**	$ 191,931
Supplementary cash flow information		
Interest paid	**$ 251,234**	$ 69,084

1 Organization

Lanesborough Real Estate Investment Trust ("the Trust") is a closed-end real estate investment trust which was created under a Declaration of Trust on April 23, 2002. On August 30, 2002, a Plan of Arrangement was completed, pursuant to which the Trust acquired all of the outstanding shares of Wireless One Inc. in exchange for units of the Trust.

Basis of presentation

The interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim financial statements have been prepared on a consistent basis with the December 31, 2003 audited financial statements, except as described in Note 2. The disclosures included below are incremental to those included with the annual audited financial statements. The interim financial statements should be read in conjunction with the December 31, 2003 audited financial statements and notes thereto.

2 Changes in accounting policies

Income properties

Effective January 1, 2004, in accordance with the new recommendations of the CICA Handbook regarding generally accepted accounting principles, amortization on buildings will be recorded on a straight-line basis over their remaining useful life. The Trust has applied this change prospectively, with no restatement to prior periods. For the three months ended March 31, 2004, amortization of income properties is higher by $38,094 than would have been reported under the previous sinking fund method.

Effective for acquisitions initiated after September 12, 2003, in accordance with new accounting standards regarding operating leases acquired in either an asset purchase or a business combination, a portion of the purchase price is allocated to land, building, tenant inducements and intangibles, such as the value of lease origination costs associated with in-place leases, tenant relationships and the value of above and below market leases, if any. The tenant inducements and lease origination costs are amortized as an expense over the remaining term of the lease. The values of tenant relationships are amortized over the term of the lease and renewal periods as applicable. The values of the above and below market leases are amortized and recorded as either an increase (below market leases) or a decrease (above market leases) to rentals from income properties over the remaining term of the lease. In the event that a tenant vacates its leased space prior to the contractual termination of the lease and rental payments are not being made on the lease, any unamortized balance of the related tenant inducement, intangible asset or liability will be written off. The Trust has applied this change prospectively, with no restatement to prior periods. For the three months ended March 31, 2004, amortization of income properties is lower by $9,740 and amortization of deferred charges and intangible assets is higher by $73,646 than would have been reported under the previous method of accounting for acquisitions. In addition, rentals from income properties is higher by $1,798 as a result of the amortization of above and below market in-place leases.

2 *Changes in accounting policies (continued)*

Revenue recognition

Effective January 1, 2004, in accordance with the new recommendations of the CICA Handbook regarding generally accepted accounting principles, rental revenue from leases with contractual rent increases are recognized on a straight-line basis over the term of the respective leases. The difference between the rental revenue recognized and the amounts contractually due under the lease agreements are recorded to deferred rent receivable and accrued rental revenue. The Trust has applied this change prospectively, with no restatement to prior periods. Rentals from income properties for the three months ended March 31, 2004, and accounts receivable are higher by $16,845 than would have been reported under the previous policy.

3 *Acquisition*

On February 2, 2004, the Trust acquired the McIvor Mall, a shopping centre located in Winnipeg, Manitoba. The acquisition was funded entirely in cash.

Net assets acquired:	
Land	$ 1,158,345
Building	3,597,780
Deferred charges	
Tenant inducements	569,203
Intangible assets	
Lease origination costs	872,412
Tenant relationships	555,748
Above market in-place leases	123,726
Intangible liabilities	
Below market in-place leases	(75,594)
Working capital, net	(353,270)
	$ 6,448,350

4 *Income properties*

	Cost	Accumulated Amortization	Net Book Value March 31 2004	Net Book Value December 31 2003 (audited)
Land	$ 4,888,864	$ -	$ 4,888,864	$ 3,728,254
Buildings	15,220,243	(226,909)	14,993,334	11,156,219
	$ 20,109,107	$ (226,909)	$ 19,882,198	$ 14,884,473

5 *Mortgage loan receivable*

	March 31 2004	December 31 2003 (audited)
Minacs Building	$ 2,150,000	$ 1,150,000
McIvor Mall	-	3,098,326
	$ 2,150,000	$ 4,248,326

Minacs Building
The Trust invested in a $1,150,000 second mortgage loan, secured by an office building in Oshawa, Ontario. The Minacs Building was developed and is beneficially owned by 2668921 Manitoba Ltd., the parent company of Shelter Canadian Properties Limited. The $1,150,000 loan advance bears interest at 12.5%. An additional loan advance of $1,000,000 which was made on January 9, 2004 bears interest at 9%. Interest is payable monthly and the loan is repayable on June 30, 2004. The Trust may request the repayment of up to $500,000 of the consideration upon 30 days notice.

6 *Deferred charges*

	Cost	Accumulated Amortization	Net Book Value March 31 2004	Net Book Value December 31 2003 (audited)
Tenant inducements	$ 965,563	$ (244,908)	$ 720,655	$ 714,694
Mortgage financing fees	95,344	(85,164)	10,180	10,448
Leasing expenses	141,449	(20,994)	120,455	122,422
Amounts recorded on income property acquisition				
Tenant inducements	569,203	(14,395)	554,808	-
	$ 1,771,559	$ (365,461)	$ 1,406,098	$ 847,564

7 *Intangible assets*

	Cost	Accumulated Amortization	Net Book Value March 31 2004	Net Book Value December 31 2003 (audited)
Lease origination costs	$ 872,412	$ (38,987)	$ 833,425	$ -
Tenant relationships	555,748	(20,263)	535,485	-
Above market in-place leases	123,726	(3,758)	119,968	-
	$ 1,551,886	$ (63,008)	$ 1,488,878	$ -

8 Mortgage loans payable

	March 31 2004	December 31 2003 (audited)
First mortgage loan, bearing interest at prime plus .625% with monthly principal and interest payments of $59,500. The loan is payable on demand until such time as the interest rate and term are fixed and is secured by a charge registered against the Kenaston Property.	$ 9,205,951	$ 8,659,339
First mortgage loan, bearing interest at prime plus 1% with monthly principal and interest payments of $7,986. The loan is payable on demand until such time as the interest rate and term are fixed and is secured by a charge registered against the MAAX Warehouse Property.	1,101,372	1,110,444
First mortgage loan, bearing interest at 6.47% with monthly principal and interest payments of $6,263. The loan is due October 1, 2013 and is secured by a charge registered against the Purolator Building Property.	931,058	934,944
	$ 11,238,381	$ 10,704,727

Approximate principal repayments are as follows:

Year Ending December 31

2004	10,319,357
2005	16,967
2006	18,082
2007	19,271
2008	20,538
Thereafter	844,166
	$ 11,238,381

The first mortgage loan relating to the Kenaston Property is authorized to a maximum of $10,200,000 (2003 - $10,200,000).

9 Convertible debentures

The Trust issued $10,000,000 of Series C debentures by way of private placement on January 30, 2004. The Series C debentures bear interest at 8%, mature on January 29, 2006 (subject to a one year extension if the Trust becomes listed on the Toronto Stock Exchange prior to the maturity date) and are subordinate only to the mortgage loans payable. The Series C debentures are convertible at the request of the holder at any time prior to January 29, 2006 at a conversion price of $4.50. On redemption, the holders may elect to convert to units at the then applicable conversion price.

In addition, the terms of the Series B debentures were modified in order for the Series B debentures to rank pari passu with the Series A debentures and Series C debentures.

On March 29, 2004, the Trust issued $131,000 of Series C debentures with respect to interest on the first sixty days from the date of closing.

The Trust issued $4,000,000 of Series D debentures by way of public offering on March 16, 2004. The Series D debentures bear interest at 8%, mature on March 15, 2008 and are subordinate to the mortgage loans payable. The Series D debentures are also subordinate to the Series A debentures, Series B debentures and Series C debentures until such time as the Trust certifies to the Indenture Trustee that, since January 30, 2004, the Trust has acquired from arm's length third parties one or more multi-family residential properties with an aggregate purchase price of at least $50,000,000 and such properties have a positive pro forma net income (after interest) to the Trust based on the operations of such properties at the time of their acquisition. The Series D debentures are convertible at the request of the holder at any time prior to maturity at a conversion price of $5.00.

The following allocation of the convertible debentures to debt and equity components is based on the net present value of future interest payments with an estimated cost of borrowing without conversion option of 15% for Series A, Series C and Series D debentures and 18% for Series B debentures:

March 31, 2004	Debt	Equity	Total
Convertible debentures			
Series A	$ 2,619,531	$ 380,469	$ 3,000,000
Series B	92,196	849,804	942,000
Series C	9,044,685	1,086,315	10,131,000
Series D	3,196,430	803,570	4,000,000
	$ 14,952,842	$ 3,120,158	$ 18,073,000

December 31, 2003	Debt	Equity	Total (audited)
Convertible debentures			
Series A	$ 2,598,399	$ 401,601	$ 3,000,000
Series B	106,249	835,751	942,000
	$ 2,704,648	$ 1,237,352	$ 3,942,000

9 Convertible debentures (continued)

The accretion of the debt component for the three months ended March 31, 2004 of $100,303 (2003 - $5,722), which increases the debt component from the initial carrying amount, is included in financing expense on convertible debentures. The accretion of the equity component, which decreases the equity component from the initial carrying amount, is credited in Unitholders' equity.

10 Intangible liabilities

	Cost	Accumulated Amortization	Net Book Value March 31 2004	Net Book Value December 31 2003 (audited)
Below market in-place leases	$ 75,594	$ (5,556)	$ 70,038	$ -

11 Related party transactions

Management agreement
The Trust incurred property management fees to Shelter Canadian Properties Limited of $27,188 for the three months ended March 31, 2004 (2003 - $19,727).

The Trust incurred leasing commissions and tenant improvement and renovation fees to Shelter Canadian Properties Limited of $2,426 and $17,999, respectively for the three months ended March 31, 2004, which were capitalized to deferred charges and income properties. Shelter Canadian Properties Limited waived leasing commissions and tenant improvement and renovation fees from the commencement date of the property management agreement to September 30, 2003.

Included in accounts payable and accrued liabilities at March 31, 2004 are property management fees, leasing commissions and tenant improvement and renovation fees of $79,658 (2003 - $48,100) payable to Shelter Canadian Properties Limited.

Services agreement
Unit-based compensation expense for the three months ended March 31, 2004 of $2,847 (2003 - $2,847), relating to options issued under the services agreement, was recorded to amortize the fair value of the unit-based compensation over the term of the services agreement.

Mortgage loan receivable
The Trust invested in a second mortgage loan, secured by the Minacs Building beneficially owned by 2668921 Manitoba Ltd., the parent company of Shelter Canadian Properties Limited. Interest income of $57,003 was recorded for the three months ended March 31, 2004 (2003 - $28,356). Accounts receivable at March 31, 2004 includes accrued interest on the second mortgage loan of $5,551 (2003 - $3,781), due from 2668921 Manitoba Ltd.

12 Units

A summary of the status of the units and changes during the period is as follows:

	Three Months Ended March 31, 2004		Year Ended December 31, 2003	
	Units	Amount	Units (audited)	Amount (audited)
Outstanding, beginning of period	2,612,713	$ 8,235,323	775,000	$ 873,083
Units issued by private placement	-	-	1,823,213	7,292,852
Units issued on conversion of debentures	-	-	14,500	58,000
Unit-based compensation	-	2,847	-	11,388
Outstanding, end of period	2,612,713	$ 8,238,170	2,612,713	$ 8,235,323

The 260,417 units which are subject to escrow as at March 31, 2004 (2003 - 411,250) will be released from escrow on the vesting dates noted below. 41,250 units were released from escrow during the three months ended March 31, 2004 (2003 - 41,250). All units which are subject to escrow are entitled to be voted and receive distributions.

Units in Seed Shareholder Escrow	Units in Security Escrow	Total Units in Escrow	Vesting Year Ending
68,333	41,250	109,583	December 31, 2004
68,334	82,500	150,834	December 31, 2005
136,667	123,750	260,417	

13 Unit options

Unit option plan

The Trust granted options in 2002 to the two independent Trustees to acquire 10,000 units each at $4.00 per unit. There has not been any options exercised for the three months ended March 31, 2004 (2003 - $Nil). The options have vested and expire October 29, 2007.

14 Rentals from income properties

	Three Months Ended March 31 2004	Three Months Ended March 31 2003
Rental revenue contractually due from tenants	$ 820,829	$ 517,582
Accrued rental revenue recognized on a straight-line basis	16,845	-
Amortization of above market in-place leases	(3,758)	-
Amortization of below market in-place leases	5,556	-
	$ 839,472	$ 517,582

Rental revenue contractually due from tenants include the recovery of property operating costs from tenants of $278,093 for the three months ended March 31, 2004 (2003 - $196,396).

15 Distributable income

Distributable income is defined by the Declaration of Trust which represents non-GAAP information, which may not be comparable to measures used by other issuers.

Distributable income and distributable income per unit are calculated, as follows:

	March 31 2004	March 31 2003
Income (loss)	$ (139,242)	$ 527
Add (deduct):		
Accrued rental revenue	(16,845)	-
Amortization of above market in-place leases	3,758	-
Amortization of below market in-place leases	(5,556)	-
Financing expense on convertible debentures	343,651	100,722
Interest expense on convertible debentures	(243,348)	(95,000)
Amortization of income properties	77,798	19,159
Amortization of intangible assets	59,251	-
Distributable income	$ 79,467	$ 25,408
Distributable income per unit (Note 16)		
Basic	$ 0.030	$ 0.033
Diluted	0.030	0.033

16 Per unit calculations

Basic per unit information is calculated based on the weighted average number of units outstanding for the period. The diluted per unit information is calculated based on the weighted average diluted number of units for the period, considering the potential exercise of outstanding unit options to the extent that the unit options are dilutive and the potential conversion of outstanding Series B, Series C and Series D convertible debentures to the extent that the debentures are dilutive.

Income (loss) per unit calculations are based on the following:

	March 31 2004	March 31 2003
Income (loss)	$ (139,242)	$ 527
Diluted income (loss)	$ (139,242)	$ 527
Weighted average number of units	2,612,713	775,000
Weighted average diluted number of units	2,612,713	775,000

Distributable income per unit calculations are based on the following:

	March 31 2004	March 31 2003
Distributable income	$ 79,467	$ 25,408
Diluted distributable income	$ 79,467	$ 25,408
Weighted average number of units	2,612,713	775,000
Dilutive options	2,183	-
Weighted average diluted number of units	2,614,896	775,000

17 Segmented financial information

The assets are located in and revenue is derived from the operation of commercial and light industrial real estate in Canada. Commercial real estate consists of retail properties and office and retail mixed-use properties.

Three months ended March 31, 2004:

	Commercial	Light Industrial	Trust	Total
Rentals from income properties	$ 754,703	$ 84,769	$ -	$ 839,472
Interest and other income	2,547	462	101,757	104,766
Property operating costs	329,629	12,632	-	342,261
Operating income	427,621	72,599	101,757	601,977
Financing expense	108,081	29,273	343,650	481,004
Amortization of income properties	69,962	7,836	-	77,798
Amortization of deferred charges	88,770	268	-	89,038
Amortization of intangible assets	59,251	-	-	59,251
Income (loss)	101,557	35,222	(276,021)	(139,242)
Total assets	20,405,730	2,921,682	12,315,908	35,643,320

Three months ended March 31, 2003:

	Commercial	Light Industrial	Trust	Total
Rentals from income properties	$ 517,582	$ -	$ -	$ 517,582
Interest and other income	3,067	-	30,457	33,524
Property operating costs	232,951	-	-	232,951
Operating income	287,698	-	30,457	318,155
Financing expense	101,551	-	100,722	202,273
Amortization of income properties	19,159	-	-	19,159
Amortization of deferred charges	58,944	-	-	58,944
Income (loss)	108,044	-	(107,517)	527
Total assets	11,633,112	-	1,259,700	12,892,812

17 Segmented financial information (continued)

Three months ended March 31, 2004:

	Alberta	Manitoba	Ontario	Trust	Total
Rentals from income properties	$ 53,974	$ 754,703	$ 30,795	$ -	$ 839,472
Interest and other income	333	2,547	129	101,757	104,766
Property operating costs	11,353	329,629	1,279	-	342,261
Operating income	42,954	427,621	29,645	101,757	601,977
Financing expense	14,391	108,081	14,882	343,650	481,004
Amortization of income properties	4,656	69,962	3,180	-	77,798
Amortization of deferred charges	-	88,770	268	-	89,038
Amortization of intangible assets	-	59,251	-	-	59,251
Income (loss)	23,907	101,557	11,315	(276,021)	(139,242)
Total assets	1,650,192	20,405,730	1,271,490	12,315,908	35,643,320

Three months ended March 31, 2003:

	Alberta	Manitoba	Ontario	Trust	Total
Rentals from income properties	$ -	$ 517,582	$ -	$ -	$ 517,582
Interest and other income	-	3,067	-	30,457	33,524
Property operating costs	-	232,951	-	-	232,951
Operating income	-	287,698	-	30,457	318,155
Financing expense	-	101,551	-	100,722	202,273
Amortization of income properties	-	19,159	-	-	19,159
Amortization of deferred charges	-	58,944	-	-	58,944
Income (loss)	-	108,044	-	(107,517)	527
Total assets	-	11,633,112	-	1,259,700	12,892,812

18 Major commitment

The Trust has entered into an agreement for a first mortgage loan for McIvor Mall of $5,400,000 for a ten year term, with an interest rate to be established at the greater of 5.65% or 150 basis points over the yield on the closest Government of Canada mortgage benchmark bond.

19 Subsequent events

Subsequent to March 31, 2004, the Trust acquired four residential properties, located in Edmonton, Alberta; Surrey, British Columbia and Yellowknife, Northwest Territories, for a combined purchase price of $33,265,000. The consideration paid consisted of assumption of first mortgage financing of $24,066,600, payment of a portion of the fee payable to the vendor's agent through the issuance of 20,000 Trust units at $5.00 per unit, and the balance paid in cash.

On April 26, 2004, the Trust received a further advance for $414,303 in regard to the first mortgage loan with respect to the Kenaston Property.

A distribution of $326,589 was paid on April 15, 2004.

20 Comparative figures

For comparative purposes, certain of the prior year figures have been reclassified.

The comparative figures for the statement of equity have been restated to reflect the distribution payable at March 31, 2003. As a result, unitholders' equity at March 31, 2003 has decreased by $96,875. There was not any effect on the current period's presentation.